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## The Level of Central Bank Independence in Developed and Developing Countries

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# **‘The Level of Central Bank Independence in Developed and Developing Countries’**



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## INTRODUCTION

The temptation for government to exploit the monopoly position of central banks (CBs) in the issue of currency has all too frequently led to excessive inflation, often accompanied with disastrous economic and social consequences.<sup>1</sup> The abuse of the CB by government to solve fiscal problems has been especially notable in developing countries.<sup>2</sup> However, during the past two decades many countries have been reforming their CB's legislation granting greater independence to their CBs from direct political influence.<sup>3</sup> It has been argued that a greater level of central bank independence (CBI) along with an explicit mandate for price stability are essential for improving overall macroeconomic performance.<sup>4</sup> The success of the highly independent German Bundesbank and Swiss National Banks in maintaining low rates of inflation for prolonged periods of time as well as the liberalization of capital flows in Europe and elsewhere has no doubt contributed to this tendency.<sup>5</sup>

But what is CBI? It refers to the freedom of the CB to conduct monetary policy without direct government intervention.<sup>6</sup> It also means that the decisions made by the CB in the exercise of its functions cannot be reverse or countermanded by any other branch of government only in extreme cases.<sup>7</sup> By all means a CB would not be considered independent if the decisions taken can be overruled.<sup>8</sup>

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<sup>1</sup> Pierre Siklos, 'Varieties of Central Bank Executive Relationships: International Evidence'

<sup>2</sup> *ibid*

<sup>3</sup> Yannick Lucotte, 'The Influence of Central Bank Independence on Budget Deficits in Developing Countries: New Evidence From Panel Data Analysis' (2009) Université d'Orléans, CNRS, 2 <

<http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.580.349&rep=rep1&type=pdf> >

accessed 16 July 2017.

<sup>4</sup> *ibid*

<sup>5</sup> Alex Cukierman, 'Central Bank Independence and Monetary Control' (1994) 104 *The Economic Journal* 427, 1437 < <https://www.researchgate.net/publication/4889776> > accessed 3 August 2017.

<sup>6</sup> Peter Howells, 'Independent Central Banks: Some Theoretical and Empirical Problems?' (2009) Centre for Global Finance Working Paper No. 05/09, 3 <

<http://www.uwe.ac.uk/bbs/research/cgf/> > accessed 1 August 2017.

<sup>7</sup> Alan Blinder, 'Central Banking in a Democracy' (1996) Federal Reserve Bank of Richmond, *Economic Quarterly* Volume 82/4, 9 <

[https://www.richmondfed.org/~media/richmondfedorg/publications/research/economic\\_quarterly/1996/fall/pdf/blinder.pdf](https://www.richmondfed.org/~media/richmondfedorg/publications/research/economic_quarterly/1996/fall/pdf/blinder.pdf) > accessed 1 August 2017.

<sup>8</sup> *ibid*

Despite the trend in making CBs more independent, there are concerns specifically as to the lack of transparency that can be derived as a result of independence.<sup>9</sup> This is based on the idea that since central bankers seem to be remarkably insulated from democratic oversight<sup>10</sup> it is vital that CB be subject to governmental and public scrutiny<sup>11</sup> to ensure that CBs use its delegated authority efficiently and effectively to achieve its objective(s) and that there are proper checks and balances in place.<sup>12</sup>

The level of independence granted in the pursuit of monetary policy differs from country to country, taking into account that even the most independent CB does not operate in a political vacuum.<sup>13</sup> But how can one determine the level of CBI? There are several factors that can be taken into consideration to measure the level of CBI; hence the focus of this paper.

This paper analyses the level of CBI with a focus on three (3) developing countries in the Caribbean (Belize, Barbados and Jamaica) as compared to developed countries such as the United Kingdom (UK). It further concludes that the level of CBI is greater in developed countries as compared to developing countries.

Chapter 1 focus on the functions of a CB with particular emphasis on monetary policy and price stability as the primary objective of a CB as well as financial stability and its regulatory role in the financial system.

Chapter 2 gives an overview of CBI, its importance and discusses the different types of CBI and its relation with accountability.

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<sup>9</sup> Carl Walsh, 'Central Bank Independence' (2005) University of California 1 < [https://people.ucsc.edu/~walshc/MyPapers/cbi\\_newpalgrave.pdf](https://people.ucsc.edu/~walshc/MyPapers/cbi_newpalgrave.pdf) > accessed 18 July 2017.

<sup>10</sup> Jacqueline Best, 'Why We Need Better Central Bank Accountability' (2016) Sheffield Political Economy Research Institute < <http://speri.dept.shef.ac.uk/2016/07/07/why-we-need-better-central-bank-accountability/> > accessed 24 July 2017.

<sup>11</sup> Frederic Mishkin, *Monetary Policy Strategy* (Massachusetts Institute of Technology 2007) 46.

<sup>12</sup> Tonny Lybek, 'Central Bank Autonomy, Accountability and Governance: Conceptual Framework' (2004) International Monetary Fund, MFD 10 < <https://www.imf.org/external/np/leg/sem/2004/cdmfl/eng/lybek.pdf> > accessed 16 July 2017.

<sup>13</sup> Jakob de Haan and Sylvester Eijffinger 'The Politics of Central Bank Independence' (2016) De Nederlandsche Bank Working Paper 539, 2 < [https://www.dnb.nl/binaries/Working%20paper%20539\\_tcm46-350814.pdf](https://www.dnb.nl/binaries/Working%20paper%20539_tcm46-350814.pdf) > accessed 27 July 2017.

Chapter 3 measures the level of CBI in the selected Caribbean jurisdictions using their CB's Acts. An analysis is done based on the four (4) legal indicators stipulated in the Cukierman, Webb and Neyapti (CWN) index.

Chapter 4 further provides theoretical and empirical evidence illustrating how CBI is greater in developed countries than developing countries by looking at the CWN legal indicators as well as the actual turnover rate (TOR) of governors at the CB of Belize as compared to the Bank of England (BoE).

## CHAPTER 1: FUNCTIONS OF A CENTRAL BANK

Central Banking has evolved overtime and continues to change however the underlying principles of 'sound' central banking practice have remained largely the same.<sup>14</sup> The core functions of modern central banking can be traced back to providing a stable means of payment where payments were funded mainly through deposits (giro banks) and privately owned banks that issued bank notes.<sup>15</sup> The earliest progenitor of CBs was the dominant issuers of banknotes and bankers to the government as these worked hand in hand.<sup>16</sup> This dominance over note issuance resulted from privileges bestowed by governments and usually gave CBs enough scale to be the choice for government banking; hence providing a fraction of the proceeds gained from issuance as loans back to governments.<sup>17</sup> However, the National Bank of Denmark, the Bank of France, and the Bank of Italy among others were founded in an effort to restore monetary stability and the credibility of banknotes after periods of over issuance and collapses of convertibility.<sup>18</sup>

Today, almost all CBs act as the government's banker.<sup>19</sup> Most CBs do, but with widely ranging degrees of intensity.<sup>20</sup> It accepts cash deposits and checks of the government and other incomes such as taxes and also provides cash requirements for payment of salaries, wages and for their expenditure.<sup>21</sup> It also maintains a government account and no interest is paid on the cash balance of the government maintained by the CB.<sup>22</sup> Banknotes and coins is a type of physical means of payment and CBs usually have the monopoly of producing them with special status through legislation

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<sup>14</sup> Patrick Downes and Reza Vaez-Zadeh, *The Evolving Role of Central Banks* (International Monetary Fund Publication Services 1991) Forward.

<sup>15</sup> Magnus Georgsson et al., 'The Modern Central Bank's Mandate and the Discussion Following the Financial Crises' (2015) Sveriges Riksbank Economic Review 8 < [http://www.riksbank.se/Documents/Rapporter/POV/2015/2015\\_1/rap\\_pov\\_artikel\\_2\\_150325\\_eng.pdf](http://www.riksbank.se/Documents/Rapporter/POV/2015/2015_1/rap_pov_artikel_2_150325_eng.pdf) > accessed 17 July 2017.

<sup>16</sup> David Archer, 'Roles and Objectives of Modern Central Banks' (2009) Bank for International Settlements 19 < [http://www.bis.org/publ/othp04\\_2.pdf](http://www.bis.org/publ/othp04_2.pdf) > accessed 17 July 2017.

<sup>17</sup> *ibid*

<sup>18</sup> *ibid* 10

<sup>19</sup> *ibid* 43

<sup>20</sup> *ibid* 43

<sup>21</sup> Zk Jadoon, 'What are the Main Functions of Central Bank?' (2016) Business Study Notes < <http://www.businessstudynotes.com/others/banking-finance/what-are-the-main-functions-of-central-bank/> > accessed 27 July 2017.

<sup>22</sup> *ibid*



as the country's legal tender.<sup>23</sup>

Nowadays, CBs are essentially an agency for monetary policy as well as promoting financial stability that is more prominent during the times of financial turmoil.<sup>24</sup> In periods of credit stringency, CB may act as lender of last resort by providing financial accommodation to financial institutions to maintain overall financial stability in the system.<sup>25</sup> The role as lender of last resort has evolved out of its rediscounting function during emergency periods.<sup>26</sup> The real significance of rediscount function is because it increases the elasticity and liquidity of the entire credit structure.<sup>27</sup> By providing a ready medium for the conversion in cash of certain assets of banks,<sup>28</sup> it helps to maintain their liquidity and makes it possible to a considerable degree the use of cash reserves, since commercial banks can conduct a large volume of business with the same reserve and capital.<sup>29</sup>

### 1.1 Monetary Policy and Price Stability

A key role of a CB is to conduct monetary policy to achieve price stability (low and stable inflation) to help manage economic fluctuations.<sup>30</sup> Price stability is usually the dominant monetary policy objective specified in legislation.<sup>31</sup> Monetary decision-making and implementation are essential characteristics of a CB however there are differences in each country on aspects of monetary policy market due to the level of independence granted to a CB.<sup>32</sup> Essentially it is vital for the means of payment of both physical and virtual currency to have lasting value overtime in order for the general public to have confidence in the system.<sup>33</sup> In a fixed exchange rate regime, it is important to maintain the value of the domestic currency in relation to foreign

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<sup>23</sup> Georgsson (n 15) 17

<sup>24</sup> *ibid* 2

<sup>25</sup> Jadoon (n 21)

<sup>26</sup> Smriti Chand, 'Important Functions Performed by Central Banks: 6 Functions' (2016) Your Article Library < <http://www.yourarticlelibrary.com/banking/important-functions-performed-by-central-banks-6-functions/24807/> > accessed 27 July 2017.

<sup>27</sup> *ibid*

<sup>28</sup> *ibid*

<sup>29</sup> *ibid*

<sup>30</sup> 'Monetary Policy and Central Banking' (2017) International Monetary Fund < <http://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/20/Monetary-Policy-and-Central-Banking> > accessed 27 July 2017.

<sup>31</sup> Archer (n 16) 2

<sup>32</sup> *ibid* 32

<sup>33</sup> Georgsson (n 15) 19

currencies.<sup>34</sup> Whereas in a floating exchange rate regime, CB would commonly steer the value of the domestic currency on the basis of a target based on the changes in the domestic currency value (demand and supply) in relation to price developments on both goods and services sold domestically.<sup>35</sup> This regime allows CBs to interpret the price developments for goods and services sold thereby setting the interest rate on loans or deposits to banks.<sup>36</sup>

In recent decades the policy framework within which CB operates have undergone major changes.<sup>37</sup> Inflation targeting has emerged as the leading framework for monetary policy since the late 1980s.<sup>38</sup> CBs in Canada, those in the euro area, the UK, New Zealand and even elsewhere have introduced an explicit inflation target.<sup>39</sup> Many developing countries are also making a transition from targeting a monetary aggregate (a measure of the volume of money in circulation) to an inflation-targeting framework.<sup>40</sup> CBs affect economic growth by controlling the liquidity in the financial system by using different monetary policy tools.<sup>41</sup> But what does this entails? Well firstly, open market operations involve the buying or selling of securities.<sup>42</sup> For instance to increase the amount of money in circulation and decrease the interest rate for borrowing, the CB can buy government bonds, bills or other government-issued notes.<sup>43</sup> This buying however can lead to higher inflation so in order to absorb money and reduce inflation, the CB will sell government bonds on the open market, which increases the interest rate and discourages borrowing.<sup>44</sup> The objective of the open market operations is to steer short-term interest rates and in turn influence longer-term rates and overall economic activity.<sup>45</sup> Would this be feasible in developing countries? Research has shown that is not as effective especially in low income developing

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<sup>34</sup> Georgsson (n 15) 19

<sup>35</sup> *ibid*

<sup>36</sup> *ibid*

<sup>37</sup> 'Monetary Policy and Central Banking' (n 30)

<sup>38</sup> *ibid*

<sup>39</sup> *ibid*

<sup>40</sup> *ibid*

<sup>41</sup> Kimberly Amadeo, 'Central Banks' Function and Role' (2017) US Economy, The Balance < <https://www.thebalance.com/what-is-a-central-bank-definition-function-and-role-3305827> > accessed 22 July 2017.

<sup>42</sup> Georgsson (n 15) 20

<sup>43</sup> Reem Heikal, 'What are Central Banks' (2015) Investopedia < <http://www.investopedia.com/articles/03/050703.asp> > accessed 22 July 2017.

<sup>44</sup> *ibid*

<sup>45</sup> 'Monetary Policy and Central Banking' (n 30)

countries as compared to developed countries so it is important for countries to develop a framework to enable CBs to target short-term rates before transitioning from monetary to inflation targeting.<sup>46</sup> CBs set targets on interest rates they charge their member banks either when they borrow or deposit money with the CB.<sup>47</sup> After the global financial crises, CB in developed economies would lower interest rates until the short-term rates are near zero, hence limiting the option to cut the policy rates further (conventional monetary options) however as deflation rose, CB undertook unconventional monetary options as well as buying bonds particularly in the US, UK, euro area and even Japan mainly to further lowering long-term rates and loosening monetary conditions.<sup>48</sup> Some even lower short-term rates below zero.<sup>49</sup> Reserve requirements, that is, when banks are obliged to deposit money with the CB at zero or very low interest rates, are also a common monetary policy instrument.<sup>50</sup> The choice of monetary framework is often linked to the choice of exchange rate regime that exists in a country.<sup>51</sup> So could this determine the level of CB independence? Research shows that a country that has a fixed exchange rate will have limited scope for an independent monetary policy versus one with a more flexible exchange rate.<sup>52</sup> Countries with a flexible exchange rate still try to manage its level, which could involve a trade-off in order to ensure price stability.<sup>53</sup>

## 1.2 Financial Stability and Regulatory Functions

Financial stability refers to having a stable payment system, guaranteeing that the payment system in place has sufficient means of payment for its function as a lender of last resort as well as regulating and supervising financial institutions.<sup>54</sup> It is important to have a stable and efficient infrastructure to make payments in order to have a smooth functioning economy.<sup>55</sup> There is also a need for a credit system that

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<sup>46</sup> 'Monetary Policy and Central Banking' (n 30)

<sup>47</sup> Georgsson (n 15) 20

<sup>48</sup> 'Monetary Policy and Central Banking' (n 30)

<sup>49</sup> *ibid*

<sup>50</sup> Georgsson (n 15) 20

<sup>51</sup> 'Monetary Policy and Central Banking' (n 30)

<sup>52</sup> *ibid*

<sup>53</sup> *ibid*

<sup>54</sup> Georgsson (n 15) 10

<sup>55</sup> *ibid* 18

converts savings to investment and a system for managing risk.<sup>56</sup> “A stable and efficient payment and credit system requires, in brief, that the financial system as a whole has the ability to maintain a number of fundamental functions.”<sup>57</sup> The robustness and effective functioning of these systems is a policy responsibility where success is vital for ensuring financial stability.<sup>58</sup>

CBs have rather a shared or full level of the oversight of the payment system.<sup>59</sup> Giving the CB this responsibility appears naturally because the CB stands at the center of the payment system infrastructure that often involves electronic interchange between various payment systems and the CB’s settlement account.<sup>60</sup> CBs have historically often been owners and operators of payment systems for instance in the US, the Federal Reserve’s (FED’s) automated clearing-house (FED ACH), which is an electronic alternative to retail payment through checks. In Europe examples include TARGET and TARGET2 system that provides real time payment and settlement of large value euro-denominated transaction.<sup>61</sup> CBs are also usually users of high value payment system.<sup>62</sup> The involvement in the payment system to an essential responsibility for the oversight is due to an increase in economic activity using payment systems, the role they play in crises situation such as the 9/11 attacks as well as an increase focus on regulatory efforts towards the systems rather than the individual institution domain.<sup>63</sup> In cases where there are shocks or crises in the financial system, the CB task becomes even more important to support the payment and credit system.<sup>64</sup> CBs may also be obliged to act as a lender of last resort to safeguard the stability of the system, hence their ultimate responsibility for the oversight of the system.<sup>65</sup> The responsibility as lender of last resort allows the CBs to counteract with institutions in the system who might be engage in excessive risk taking due to their awareness of the support from CB in the event of crises.<sup>66</sup>

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<sup>56</sup> Georgsson (n 15) 18

<sup>57</sup> *ibid*

<sup>58</sup> Archer (n 16) 36

<sup>59</sup> *ibid*

<sup>60</sup> *ibid*

<sup>61</sup> *ibid*

<sup>62</sup> *ibid*

<sup>63</sup> *ibid* 36-37

<sup>64</sup> Georgsson (n 15) 9

<sup>65</sup> *ibid* 19

<sup>66</sup> *ibid* 9

Other tasks aimed at financial stability include that of micro-prudential supervision, macro-prudential policy<sup>67</sup> as well as investor protection activities.<sup>68</sup> Micro-prudential supervision includes all on and off surveillance of the safety and soundness of individual financial institution with particular emphasis on the protection of depositor and other retail creditors.<sup>69</sup> Macro-prudential policy involves all activities aimed at monitoring the exposure to systemic risk and identifying potential threats to stability that can arise as a result of macro-economic or financial market developments and infrastructure.<sup>70</sup> Investor protection activities focus mainly on the issuance and enforcement of rules on the conduct of business and disclosure of information.<sup>71</sup> This task has been granted to CBs in some countries whereas in others it is the responsibility of separate financial supervisory authorities<sup>72</sup> in favor of a more generalized financial stability objective for the CB itself.<sup>73</sup> But why would such an important responsibility be separate from a CB? Critics claim there might be a conflict of interest between the different duties of the CB as a result of the difference in nature of the regulatory and monetary functions.<sup>74</sup> The regulatory functions might require the microeconomic decisions of the short-term nature that is contrary to the macroeconomic activities that are long-term.<sup>75</sup> “Monetary policy is usually countercyclical, while the effects of regulation and supervision tend to be procyclical, offsetting to some extent the objectives of monetary policy.”<sup>76</sup> On the other hand, arguments in favor of prudential supervision stress that CB access to prudential information on systemically relevant institutions is essential for the conduct of macro-prudential monitoring.<sup>77</sup> Micro-prudential information allows more accurate estimates

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<sup>67</sup> Georgsson (n 15) 9

<sup>68</sup> ‘The Role of Central Banks in Prudential Supervision’ (2001) European Central Bank 3 < [https://www.ecb.europa.eu/pub/pdf/other/prudentialsupcbrole\\_en.pdf](https://www.ecb.europa.eu/pub/pdf/other/prudentialsupcbrole_en.pdf) > accessed 24 July 2017.

<sup>69</sup> *ibid*

<sup>70</sup> *ibid*

<sup>71</sup> *ibid*

<sup>72</sup> Georgsson (n 15) 19

<sup>73</sup> Archer (n 16) 28

<sup>74</sup> ‘The Role of Central Bank: What are the Roles and Functions of Central Banks? Why do They Need Economic Staff? How Far Should Central Banks Get Involved in Data Collection and Areas Such as Seasonal Adjustment as Well as Economic Analysis?’ Ivory Research.com < <http://www.ivoryresearch.com/samples/economics-essay-example-the-role-of-central-bank/> > accessed 24 July 2017.

<sup>75</sup> *ibid*

<sup>76</sup> *ibid*

<sup>77</sup> ‘The Role of Central Banks in Prudential Supervision’ (n 68) 4

on economic activity and inflationary pressures to be achieved, thereby favoring the choice of a more appropriate stance for monetary policy as some analysis in the US has provided.<sup>78</sup> In cases of financial crises, CB would be involved and so supervisory input is crucial for assessing whether illiquid bank requesting emergency liquidity assistance is solvent so as to limit the scope of moral hazard.<sup>79</sup> However it is important to note that independence of supervision authority from political interference is also essential for effective supervision especially in developing countries where the ‘policy loans’ (loans granted under formal or informal pressures from governmental authorities still exist).<sup>80</sup> The laws, regulation or acts of public administration may interfere with entrepreneurial choices of financial institutions.<sup>81</sup> In cases where these institutions encounter difficulties due to wrong incentives, pressures to bail them out might be high; hence CBs independence might shelter supervision from external intervention as well as risk of regulatory capture by the supervised entities.<sup>82</sup>

Credibility is also a major concern since if a bank fails when the CB holds responsibility for monitoring and control, this can result in a lost of confidence and trust.<sup>83</sup> Issues of efficiency and development are part of the systemic mandate and led to changes in the governance structure to enhance the effectiveness of the financial stability functions especially after the global financial crisis.<sup>84</sup> What was the result of these changes? In the US, the Financial Regulation Bill (Dodd-Frank Act) led the creation of a new Financial Stability Council (FSOC) headed by the Treasury Secretary and independent from the FED.<sup>85</sup> The UK Treasury reformed the tripartite model and led to the inception of a new Financial Policy Committee within the BoE with primary statutory responsibility for maintaining financial stability.<sup>86</sup> In Europe, following the recommendations of the de Larosière report, the European Commission

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<sup>78</sup> ‘The Role of Central Banks in Prudential Supervision’ (n 68) 4

<sup>79</sup> *ibid* 5

<sup>80</sup> *ibid*

<sup>81</sup> *ibid*

<sup>82</sup> *ibid*

<sup>83</sup> ‘The Role of Central Bank: What are the Roles and Functions of Central Banks? Why do They Need Economic Staff? How Far Should Central Banks Get Involved in Data Collection and Areas Such as Seasonal Adjustment as Well as Economic Analysis?’ (n 74)

<sup>84</sup> Archer (n 16) 34

<sup>85</sup> Denis Beau et al., ‘Macro-Prudential Policy and the Conduct of Monetary Policy’ (2012) Bank of France 4 < <http://ssrn.com/abstract=2132404> > accessed 22 July 2017.

<sup>86</sup> *ibid*

(EC) created the European Systemic Risk Board (ESRB) and is independent from the European Central Bank (ECB).<sup>87</sup> However, in contrast to its US counterpart, the ESRB is not fully in control of the macro-prudential tools.<sup>88</sup> With the creation of CBs in developing Caribbean countries from the 1960s onwards, the primary responsibility for promoting monetary stability and a sound financial system was delegated to the CBs.<sup>89</sup> Apart from regulating and supervising the financial institutions and as a result of the problems experienced especially by non-bank institutions due to a lack of supervision, some Caribbean countries have placed these institutions under direct supervision of the CBs.<sup>90</sup>

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<sup>87</sup> Beau et al., (n 85)

<sup>88</sup> *ibid*

<sup>89</sup> DeLisle Worrell et al., 'Financial System Soundness in the Caribbean: An Initial Assessment' (2001) IMF Working Paper WP/01/123, 10 <  
<https://www.imf.org/external/pubs/ft/wp/2001/wp01123.pdf>> accessed 5 August 2017.

<sup>90</sup> *ibid*

## **CHAPTER 2: OVERVIEW OF CENTRAL BANK INDEPENDENCE**

### **2.1 Independence**

The concept of CB as an independent institution is not a new phenomenon and has been at the forefront since the 1980s.<sup>91</sup> CBI refers to the freedom to conduct monetary policy without direct governmental influence.<sup>92</sup> A CB must have clearly defined and prioritized objectives, sufficient authority to achieve these objectives and be independent to also remain credible.<sup>93</sup> Independence also means that the decisions taken by a CB in the conduct of its functions will not be countermanded by any other branch of government only in extreme cases; without this, it would only be a mockery to a CB's independence.<sup>94</sup> The International Monetary Fund (IMF) supports CBI since it facilitates price and financial sector stability that leads to sustainable economic growth.<sup>95</sup> The ability to independently set policy goals and pursue them can lead to monetary outcomes that wouldn't have been possible with political intervention.<sup>96</sup> However, the level of independence granted in pursuit of monetary policy varies from country to country taking into account that no CB is completely independent from governmental interference.<sup>97</sup>

### **2.2 Importance of CBI**

In order to achieve real sustainable economic growth, it is important to ensure financial sector stability.<sup>98</sup> Variable inflation over a certain threshold prevents sustainable economic growth.<sup>99</sup> Inflation has a negative effect on how effectively prices are used to allocate scarce resources.<sup>100</sup> Inflation also affects the decisions made in relation to investment and savings and often more beneficial to the wealthy owning land, real estate or stocks due to the redistribution of wealth.<sup>101</sup> Government

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<sup>91</sup> Carroll Griffin, 'The External Impacts of Central Bank Independence' (2010) Fontbonne University < <http://dx.doi.org/10.10.1590/S1519-70772010000300005> > accessed 1 August 2017.

<sup>92</sup> Howells (n 6) 3

<sup>93</sup> Lybek (n 12) 1

<sup>94</sup> Blinder (n 7) 9

<sup>95</sup> *ibid*

<sup>96</sup> *ibid*

<sup>97</sup> de Haan and Eijffinger (n 13) 2

<sup>98</sup> Lybek (n 12) 2

<sup>99</sup> *ibid*

<sup>100</sup> *ibid*

<sup>101</sup> *ibid*



may also be tempted to cut into the inflation taxes and high inflation negatively affects the budget due to increase in interest rates and delays that may be encountered in collecting taxes.<sup>102</sup> Although it might be enticing to utilize inflation to ‘solve’ short-term problems, it is detrimental to real economic growth by not addressing the underlying challenges presently at hand.<sup>103</sup>

Some scholars argue that in a democracy, the government is accountable to the electorate and the ultimate goals of monetary policy is the duty of the elected government<sup>104</sup> but the conduct of monetary policy in pursuit of those goals should be free from political control.<sup>105</sup> Government tend to have many short-term objectives including being re-elected and might not place emphasis on price stability as the underlying objective. Within the CB, there are officials who have career concerns and may want to appear as competent as possible looking ahead toward future employment.<sup>106</sup> Given these two different incentive structures, certain activities should be delegated to non-elected officials especially when monitoring of effort and talent is important due to the technical nature of tasks.<sup>107</sup> Is monetary policy considered a technical issue? Under normal circumstances, it is a policy task that is relatively technical in nature;<sup>108</sup> therefore to enhance both credibility and flexibility, it would be better to delegate the task to an independent and accountable CB that has a clearly defined objective.<sup>109</sup> Overall, as long as there is short-term ‘price stickiness’ it is better to have an independent CB weighing price stability higher than the social objective function to defuse the intolerant behavior of the government and the ability to better utilize new information.<sup>110</sup>

### 2.3 Types of Independence

There are different types of independence granted to CBs and comprise of: a) organic, b) functional, and c) financial.<sup>111</sup>

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<sup>102</sup> Lybek (n 12) 2

<sup>103</sup> *ibid*

<sup>104</sup> de Haan and Eijffinger (n 13) 5

<sup>105</sup> Lybek (n 12) 2

<sup>106</sup> de Haan and Eijffinger (n 13) 9

<sup>107</sup> *ibid*

<sup>108</sup> *ibid*

<sup>109</sup> Lybek (n 12) 2

<sup>110</sup> *ibid* 3-5

<sup>111</sup> Lucotte (n 3) 4

Organic independence refers to the conditions that exist on how to appoint, renew or remove the CB executives as well as the composition of the CB's governing bodies; for instance, if a government representative has (or not) the right to sit and vote within these authorities.<sup>112</sup> Recent studies have focused on the real term of the governor's mandates such as the terms of reference as well as the synchronization between the mandate of the governor and of the chief of executive power.<sup>113</sup>

Functional independence also known as operational independence refers to the freedom that the CB has not only in the definition of objectives to pursue but also to conduct monetary policy that includes the choice of instruments.<sup>114</sup> Independence refers to the CB's ability to use the instruments of monetary control with or without instruction, guidance or interference from government.<sup>115</sup> Functional independence can further be sub-divided into: a) goal independence b) target independence and c) instrument independence.

- Goal independence entrusts the CB with the responsibility for determining the monetary policy and exchange rate regime, or simply the monetary policy if it is a floating exchange rate.<sup>116</sup> It gives the CB the authority to determine its primary objective from among several objectives outlined in the CB statute or rarely to determine the objective if there is no clearly defined one.<sup>117</sup> In the UK, the BoE lacks goal independence since the inflation target is set by the government whereas in the US the FED's goals are set in its legal charter, but these goals are described in vague terms (e.g. maximum employment).<sup>118</sup> So how does the FED determine its goals? Well this leaves the FED to translate these into operational goals, hence allowing the FED a high level of goal independence.<sup>119</sup>
- Target independence also entrust the CB with responsibility for determining monetary policy and the exchange rate regime, or simply monetary policy if it

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<sup>112</sup> Lucotte (n 3) 5

<sup>113</sup> *ibid* 4

<sup>114</sup> *ibid*

<sup>115</sup> *ibid*

<sup>116</sup> Lybek (n 12) 3

<sup>117</sup> *ibid*

<sup>118</sup> Walsh (n 8) 3

<sup>119</sup> *ibid*

is a floating exchange rate.<sup>120</sup> However, there is only one clearly defined primary objective stipulated in law.<sup>121</sup> The CB has the independence in the choice of specific target (monetary base, interest rate, inflation rate) to pursue its legislative objective such as price stability.<sup>122</sup>

- Instrument independence is when the government or the legislature decides the monetary policy or target, in agreement with the CB and the exchange rate regime, but the CB keeps sufficient authority to implement the monetary policy target using the instrument it sees fit.<sup>123</sup> The BoE while lacking goal independence, has instrument independence, given its inflation mandate set by the government, it is able to set its instruments with or without influence from the government.<sup>124</sup>

Financial independence refers to the role government or parliament plays with regard to the budget of the CB.<sup>125</sup> If the government has influence over the CB's budget, this may make the CB more vulnerable to influence in its monetary policy decisions.<sup>126</sup> For example if Congress would have the power to reduce the FED's surplus and that "If carried far enough, stripping the FED of its liquid assets would obviously interfere with its ability to conduct monetary and credit policy. Equally important, however, it would undermine the FED's financial independence by denying it enough interest income to finance its operations without having to ask Congress for appropriations or resorting to inflationary money creation."<sup>127</sup> It also looks at the possibility or to what extent of a government to finance its expenditure by resorting directly or indirectly to advances and loans from the CB.<sup>128</sup> CB financial problems have been quite prominent for decades, in particular, those difficult situations where CB financial

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<sup>120</sup> Lybek (n 12) 3

<sup>121</sup> *ibid*

<sup>122</sup> Lucotte (n 3) 5

<sup>123</sup> Lybek (n 12) 4

<sup>124</sup> Walsh (n 8) 4

<sup>125</sup> Georgsson (n 15) 16

<sup>126</sup> *ibid*

<sup>127</sup> Peter Stella and Ake Lonnberg, 'Issues in Central Bank Finance and Independence' (2008) IMF Working Paper WP/08/37, 13 <

<https://www.imf.org/external/pubs/ft/wp/2008/wp0837.pdf> > accessed August 10, 2017.

<sup>128</sup> Lucotte (n 3) 6

structures have been debilitated by quasi-fiscal operations.<sup>129</sup>

## 2.4 Independence in Relation to Accountability

While many countries have undergone reform making their CBs more independent, the idea that CB should be completely independent has come under criticism.<sup>130</sup> Why such criticism when independence is said to be beneficial for the economy? Traditionally, CBs often had a reputation for secrecy and mystery; their language was often designed to blur and obfuscate.<sup>131</sup> One of the most memorable replies given by a CB governor to a member of parliament some years ago, was “If I seem unduly clear to you, you must have misunderstood what I said.”<sup>132</sup> However, since the 2008 financial crisis, the power of CBs has grown, as they have used unorthodox tools to stimulate the economy, taken a greater role in financial regulation, and put themselves in more politically sensitive positions including entering into tough debt negotiation.<sup>133</sup> Despite the powerful role, central bankers seem to be remarkably insulated from democratic oversight.<sup>134</sup> A recent ‘Buttonwood’ column in *The Economist* stated that, “Janet Yellen and Mario Draghi are very important players in the world economy, arguably more important than the US President or the German chancellor. And yet they are not elected; if voters do not like the job they are doing, they cannot get rid of them.”<sup>135</sup>

The main objection towards independent CB is a lack of accountability.<sup>136</sup> But what does accountability means and accountable to who? “Accountability refers to the legal obligation to give an account of a bank’s actions and performance, which derives from the delegation of power.”<sup>137</sup> An independent CB is ultimately accountable to the general public but maybe directly accountable to the executive branch or the

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<sup>129</sup> Stella and Lonnberg (n 127) 4

<sup>130</sup> Walsh (n 8) 9

<sup>131</sup> Daniel Lefort, ‘Transparency and Accountability of Central Banks’ (2017) Bank for International Settlements 4 < <http://www.cemla.org/legales/docs/leg-06-lefort.pdf> > accessed 27 July 2017.

<sup>132</sup> *ibid*

<sup>133</sup> Best (n 10)

<sup>134</sup> *ibid*

<sup>135</sup> *ibid*

<sup>136</sup> Walsh (n 8) 9

<sup>137</sup> Lorenzo Smaghi and Daniel Gros, *Open Issues in European Central Banking* (Palgrave 2000) 147.

legislature.<sup>138</sup> It often depends on the government structure, in newer CB laws, it is often the legislature; the CB is formally accountable to avoid dilution of responsibilities.<sup>139</sup> But overall, a CB should be subject to both government and public scrutiny.<sup>140</sup> No CB can be totally independent that it does not have to report to anyone.<sup>141</sup> As with any public institution, principles of good governance require that CBs with a sufficient degree of independence operate in a clear legal and operational framework.<sup>142</sup> The CB must ensure that both the government and the public are continually kept informed of its actions.<sup>143</sup> Regular discussions between the CB, the government and the legislative branch also need to be established, in order for the CB to be accountable for its actions.<sup>144</sup>

Transparency is a very important element of accountability.<sup>145</sup> “Transparency improves policy, because policy makers operating in the light of day cannot do some of the things they can do in the dark of secrecy.”<sup>146</sup> Information concerning the behavior of CB is crucial for the evaluation of its performance.<sup>147</sup> However, while the informational model of accountability obligates CBs to explain their actions, it reduces this process to a simple publication of data.<sup>148</sup> This alone is not enough, hence what else should be done to be effective? The missing part is the back and forth of question and answer which is the process of genuine debate and deliberation.<sup>149</sup> By the mid-2000s, central bankers were being treated like oracles, with Alan Greenspan as the most revered among them.<sup>150</sup> There must be more room for dissent both among those with the power to set monetary policy and in the wider society that is affected

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<sup>138</sup> Lybek (n 12) 10

<sup>139</sup> *ibid*

<sup>140</sup> Mishkin (n 11) 45

<sup>141</sup> Lefort (n 131) 1

<sup>142</sup> *ibid* 2

<sup>143</sup> *ibid*

<sup>144</sup> *ibid*

<sup>145</sup> Sylvester Eijffinger and Marco Hoeberichts, ‘Central Bank Accountability and Transparency: Theory and Some Evidence’ (2000) Economic Research Centre Discussion Paper 6/00, 2 <  
[https://www.bundesbank.de/Redaktion/EN/...Paper.../2000\\_12\\_21\\_dkp\\_06.pdf?](https://www.bundesbank.de/Redaktion/EN/...Paper.../2000_12_21_dkp_06.pdf?) > accessed 1 August 2017.

<sup>146</sup> Lefort (n 131) 6

<sup>147</sup> Eijffinger and Hoeberichts (n 145) 3

<sup>148</sup> Best (n 10)

<sup>149</sup> *ibid*

<sup>150</sup> *ibid*

by those policies.<sup>151</sup> All information should be released, unless a good case can be made to the contrary, for example in order to preserve the confidentiality of proprietary information on financial institutions collected by CBs, or in the case of foreign exchange market transactions.<sup>152</sup> More generally, CBs need to balance the efficiency and accountability gains of greater transparency against the need for confidentiality.<sup>153</sup>

Delegating policy to a CB requires some mechanism to ensure accountability.<sup>154</sup> The degree of independence granted affects the structure of the governing bodies and the accountability provisions.<sup>155</sup> Strong accountability provisions are essential with increased level of independence to ensure that a CB use its delegated authority effectively and efficiently to achieve its objective, as well as other tasks and prudently manages its resources.<sup>156</sup> Overall, as CBs become more independent and take on an increasingly powerful role in these highly uncertain times, there must be proper ways of ensuring full accountability of their actions.

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<sup>151</sup> Best (n 10)

<sup>152</sup> Lefort (n 131) 6

<sup>153</sup> *ibid*

<sup>154</sup> Lybek (n 12) 9

<sup>155</sup> *ibid* 3

<sup>156</sup> *ibid* 10

## **CHAPTER 3: MEASUREMENT OF CB's LEGAL INDEPENDENCE**

### **(Cukierman, Webb and Neyapti – CWN Index)**

The past two decades have witnessed a widespread of CB's legislative reforms in many countries granting greater independence to CBs<sup>157</sup> and removing monetary policy from the hands of government.<sup>158</sup> The CWN index is the most widely employed index measuring CB's independence and is based on four (4) legal characteristics as described in a CB's charter.<sup>159</sup> These four legal characteristics refers to: a) the primary objective of monetary policy b) the extent of policy decisions and implementation independent of government c) the governance structure (appointment, dismissal and term of office of CB governors; and d) limitations on the government's ability to borrow from the CB.<sup>160</sup>

#### **3.1 Primary Objective – Price Stability**

According to the CWN index, a CB is more independent if its charter states that price stability is the sole or primary goal of monetary policy.<sup>161</sup> But why would this lead to greater independence when in fact many developed countries have multiple objectives such as the FED in the US? The establishment of a single objective for the CB, at a minimum, a clearly defined primary objective provides a more precise basis for delegating authority to the CB and holding it accountable for its policy outcomes and its financial condition.<sup>162</sup> In contrast, multiple objectives can hamper CB's effectiveness, dilute accountability and complicate the coordination of economic policies with the government.<sup>163</sup>

Narrowing the objectives towards a single or dominant one result in an increase in clarity for monetary policy.<sup>164</sup> Price stability is usually the dominant policy objective

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<sup>157</sup> Walsh (n 8) 1

<sup>158</sup> Cristina Bodea and Masaaki Higashijima, 'Central Bank Independence and Fiscal Policy: Incentives to Spend and Constraints on the Executive' (2015) British Journal of Political Science 2 < [http://polisci.msu.edu/wp-content/uploads/2016/04/bjps\\_Centralbank092014.pdf](http://polisci.msu.edu/wp-content/uploads/2016/04/bjps_Centralbank092014.pdf) > accessed 12 July 2017.

<sup>159</sup> Walsh (n 8) 4

<sup>160</sup> *ibid* 4-5

<sup>161</sup> *ibid* 4

<sup>162</sup> Lybek (n 12) 5

<sup>163</sup> *ibid*

<sup>164</sup> Archer (n 16) 21

specified in legislation<sup>165</sup> illustrating a change of attitude concerning the cost of inflation.<sup>166</sup> Price stability in the domestic purchasing power of the currency appears as the dominant or one of the dominant legal objectives extracted from thirty three (33) of nearly fifty (50) CB's legislation.<sup>167</sup> In most cases, it is a singular objective or its superior to the other macroeconomic objectives specified in law.<sup>168</sup> But what is the importance of such dominance? Some critics believe that achieving and maintaining price stability is the best contribution monetary policy can make towards sustainable economic growth.<sup>169</sup> This is however based on the analytical view that monetary policy is best suited to achieve medium-term control over inflation, while its output and employment effects are not viewed as either sufficiently predictable or permanent to increase economic activity or lower unemployment.<sup>170</sup> Hence, if other macroeconomic objectives are not made as subsidiaries to price stability, they can weaken the credibility of monetary policy by eroding clarity and transparency.<sup>171</sup>

Not having price stability legally specified as the prime objective of monetary policy among others could lead the listed objectives becoming more general in nature.<sup>172</sup> This is because it would result in not having a legally dominant objective and a broad definition of currency value is used.<sup>173</sup> In developed countries such as the UK<sup>174</sup> Germany as well as the entire euro area, the CBs primary objective is to deliver price stability<sup>175</sup> whereas in developing Caribbean countries, there is no CB that focuses exclusively on price stability.<sup>176</sup> But why would such small open economies in this region focus on several objectives? Well critics believe that this is tempered by the desire to avoid financial crises, achieve real economic growth, improve international

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<sup>165</sup> Archer (n 16) 21

<sup>166</sup> Siklos (n 1) 9

<sup>167</sup> Archer (n 16) 21

<sup>168</sup> *ibid*

<sup>169</sup> Lybek (n 12) 5

<sup>170</sup> *ibid*

<sup>171</sup> *ibid*

<sup>172</sup> Archer (n 16) 22

<sup>173</sup> *ibid*

<sup>174</sup> 'Monetary Policy' Bank of England < [bankofengland.co.uk](http://bankofengland.co.uk) >

<sup>175</sup> 'Tasks: Monetary Policy' Deutsche Bundesbank Eurosystem < [https://www.bundesbank.de/Navigation/EN/Tasks/Monetary\\_policy/monetary\\_policy.html](https://www.bundesbank.de/Navigation/EN/Tasks/Monetary_policy/monetary_policy.html) > accessed 1 August 2017.

<sup>176</sup> DeLisle Worrell and Anton Belgrave, 'The Treasury and the Central Bank: Independence or Consensus' (1997) Central Bank of Barbados Research Department 284 < [www.centralbank.org.bb/Portals/0/Files/WP1997v1-22.pdf](http://www.centralbank.org.bb/Portals/0/Files/WP1997v1-22.pdf) > accessed 17 July 2017.



competitiveness and diversify economic activity.<sup>177</sup> Below illustrates the objectives of the three (3) developing Caribbean countries that are critical to this research (Belize, Barbados and Jamaica).

***Central Bank of Belize Act effective 1982***

“Within the context of the economic policy of the government, the bank shall be guided in all of its actions by the objectives of fostering monetary stability, especially as regards to stability of the exchange rate, and promoting credit and exchange conditions conducive to the growth of the economy of Belize.”<sup>178</sup>

***Central Bank of Barbados Act effective 1972***

“The purpose of the central bank shall be to regulate the issue, supply, availability and international exchange of money; to promote monetary stability; to promote a sound financial structure; to foster the development of money and capital markets in Barbados; and to foster credit and exchange conditions conducive to the orderly and sustained economic development of Barbados.”<sup>179</sup>

***Bank of Jamaica Act effective 1960***

“The principal objects of the bank shall be to issue and redeem notes and coins; to keep and administer the external reserves of Jamaica; to influence the volume and conditions of supply of credit so as to promote the fullest expansion in production, trade and employment consistent with the maintenance of monetary stability in Jamaica and the external value of the currency; to foster the development of money and capital markets in Jamaica; and to act as banker to the government.”<sup>180</sup>

It shows that all three developing countries have a broader mandate of objectives as compared to developed countries. Belize showing a slightly narrower spectrum while Jamaica showing the broadest ranges of objectives. It also seems as if though some core functions has been included as part of its objectives (issue, supply, availability and international exchange of money; issue and redeem notes and coins; banker to the government) especially as it relates to Barbados and Jamaica.

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<sup>177</sup> Worrell and Belgrave (n 176) 284

<sup>178</sup> Central Bank of Belize Act 1982, s (II) (6)

<sup>179</sup> Central Bank of Barbados Act 1972, s (II) (5)

<sup>180</sup> Bank of Jamaica Act 1960, s (II) (5)

What are the effects of having such a broad spectrum of objectives? The broader the mandate a CB has, the more it will be forced to find a balance between different objectives, tasks and tools.<sup>181</sup> Potential conflicts arise when different monetary policy actions are motivated by different objectives.<sup>182</sup> In the Caribbean, the most persistent conflict arose between external price competitiveness and price stability; reflected in efforts to stabilize exchange rates.<sup>183</sup> Because devaluation is the principal source of high inflation, the Bank of Jamaica (BoJ) tried a variety of mechanism to steady the nominal exchange rate over the past 20 years.<sup>184</sup> Was this successful? Unfortunately, over the years, these efforts was ineffective because the public perceived the exchange rate was not competitive; implying that Jamaica did not earn enough foreign exchange to cover import demand at that rate;<sup>185</sup> hence led to the devaluation of the currency multiple times.<sup>186</sup>

These multiple objectives witnessed in the Caribbean have been reflected in the frequent bailout of failed institutions.<sup>187</sup> For instance in 2010, the government of Belize (GoB) had to bailout the ailing sugar industry that was considered “too big to fail” in order to provide a temporary solution to avert a major crises in the sugar belt that would have displaced thousands of families.<sup>188</sup> How was this possible? The government issued a five (5) year treasury note that was bought by, no other than the CB of Belize.<sup>189</sup> The government of Barbados also rescued the Barbados National Bank in 1994 when it became insolvent as a result of the impairment of 70% of its loan portfolio.<sup>190</sup> The potential increase in narrow money; one third of the total money supply was averted by the issue of long-term debt.<sup>191</sup> Then the BoJ assumed the direction of Century National Bank in 1996 after an injection of official funds

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<sup>181</sup> Georgsson (n 15) 21

<sup>182</sup> Archer (n 16) 23

<sup>183</sup> Worrell and Belgrave (n 176) 284

<sup>184</sup> *ibid*

<sup>185</sup> *ibid* 285

<sup>186</sup> ‘Foreign Exchange Controls: What it Means to You!’ Central Bank of Belize Public Education Series < <https://www.centralbank.org.bz/docs/default-source/4.7-educational-materials/foreign-exchange-controls--what-it-means-to-you-.pdf?sfvrsn=8> > accessed 1 August 2017.

<sup>187</sup> Worrell and Belgrave (n 176) 284

<sup>188</sup> Jose Sanchez, ‘Sugar Industry Gets Multi-Million Dollar Bailout’ (2010) News 5 < <http://edition.channel5belize.com/archives/43318> > accessed 27 July 2017.

<sup>189</sup> *ibid*

<sup>190</sup> Worrell and Belgrave (n 176) 284

<sup>191</sup> *ibid*

failed to avert insolvency.<sup>192</sup> In 1997 the Eagle Bank Group was forced to sell to FINSAC, which was a newly established financial restructuring agency belonging to the government of Jamaica.<sup>193</sup>

### **3.2 Extent of Policy Decisions and Implementation Independent of Government - Monetary and Exchange Rate Policy**

The Caribbean's small, open economies are particularly vulnerable to several external shocks, including terms of trade and financing shocks, as well as frequent natural disasters.<sup>194</sup> A well functioning and suitable monetary policy regime is an important tool to help preserve macroeconomic stability and absorb external shocks.<sup>195</sup> Having a desirable monetary policy framework is one that keeps inflation expectations well anchored and minimizes unnecessary fluctuations of economic activity around its trend path in response of shocks.<sup>196</sup> The choice of appropriate monetary and exchange rate regime is somewhat controversial at times.<sup>197</sup> Why is that? Based on traditional theory, the fixed exchange rate regimes with free capital flows may reduce the economy's volatility arising from monetary (or nominal) shocks, but exacerbate those as a result of real shocks (such as terms of trade fluctuations).<sup>198</sup> Yet a fixed exchange rate regime may enhance monetary policy credibility if the commitment to the peg is perceived as credible. In contrast, a more flexible regime may not only assist to buffer real shocks but, if grouped with a credible monetary or inflation target, have minor costs in terms of reducing or maintaining low inflation.<sup>199</sup>

Monetary policy decision-making and implementation are the defining characteristics of a CB however, there are differences between countries as to how extensive the CB's independent responsibilities are in relation to monetary policy making.<sup>200</sup> According to research, the average CB reports a high degree of involvement in

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<sup>192</sup> Worrell and Belgrave (n 176) 284

<sup>193</sup> *ibid*

<sup>194</sup> Andre Minella et al., 'Monetary and Exchange Rate Policies for the Perfect Storm: The Case of the Bahamas, Barbados, Guyana, Haiti, Jamaica, Suriname and Trinidad & Tobago' (2009) IDB Working Paper 678, 4 <  
<http://www.iadb.org/document.cfm?pubDetail=1&id=2230911> > accessed 27 July 2017.

<sup>195</sup> *ibid*

<sup>196</sup> *ibid*

<sup>197</sup> *ibid*

<sup>198</sup> *ibid*

<sup>199</sup> *ibid*

<sup>200</sup> Archer (n 16) 32

objective setting for monetary policy but not complete independence.<sup>201</sup> Whereas complete independence or very nearly, is reported for the decision-making and implementation stages of monetary policy function.<sup>202</sup>

Current monetary and supervisory arrangement in the developing Caribbean has evolved from the colonial heritage these countries inherited and the particular form of government.<sup>203</sup> With the exception of the Eastern Caribbean Central Bank (ECCB), CBs arrangement would allow the elected officials to effectively control monetary policy.<sup>204</sup> Therefore, monetary policy is subject to the uncertainties of political cycles and has an upward inflation bias.<sup>205</sup>

This section looks at how policy decision-making is done in the three (3) selected developing Caribbean jurisdictions.

### **3.2.1 Belize**

Within the CB legislative framework in Belize, the CB is responsible for formulating and implementing monetary policy but within the context of the economic activity of the government.<sup>206</sup> The bank focus is on the stability of the exchange rate and economic growth.<sup>207</sup> Belize has also maintained a fixed exchange rate of BZ\$2.00 to US\$1.00 since 1976.<sup>208</sup> What is the importance of having a fixed exchange rate? It represents a cornerstone of macroeconomic stability, anchors inflation expectations and affords a stable environment for investment decisions.<sup>209</sup> In order to maintain the fixed exchange rate in relation to the US dollar over such long period, the GoB simultaneously passed the Exchange Controls Regulations Act under which the system of domestic exchange control regulations was set in place. Since then, the exchange controls have enabled the monitoring of inflows and outflows. This is vital for the compilation of the external balance of payment statistics and also provides a

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<sup>201</sup> Archer (n 16) 32

<sup>202</sup> *ibid*

<sup>203</sup> John Robinson, 'Independent Monetary Policy in a Very Open Economy: Challenges, Costs and Benefits' (1999) 48 *Social and Economic Studies* No. 1/2 10 < <https://www.jstor.org/stable/i27865129> > accessed 30 July 2017.

<sup>204</sup> *ibid*

<sup>205</sup> *ibid*

<sup>206</sup> 'Financial System: Monetary Policy' Central Bank of Belize < [centralbank.org.bz](http://centralbank.org.bz) >

<sup>207</sup> *ibid*

<sup>208</sup> *ibid*

<sup>209</sup> *ibid*

means of managing capital inflows and outflows to reduce the likelihood of dangerous and unsustainable imbalances that drain foreign reserve holdings.<sup>210</sup> In a small, import-dependent country like Belize, this regime works well because the currency is protected from large savings in value that can be caused by one or more large transactions.<sup>211</sup> Unlike developed countries, the Belizean economy is only about 0.01% of the size of the US economy and is characterized by a significantly lower quantity and variety of transactions.<sup>212</sup> It is more vulnerable to the destabilizing impact that a single large transaction can have.<sup>213</sup>

Commercial banks dominate lending in the financial system; hence monetary policy targets commercial banks' liquidity through the CB's management of the monetary base (reserve balances).<sup>214</sup> Adjustments in the monetary base, through the manipulation of reserve requirements (which is an instrument of monetary policy) affect credit growth, interest rates and the level of money supply.<sup>215</sup> To accomplish its monetary policy objectives, the CB can use a mixture of direct and indirect policy tools to influence the supply and demand of money.<sup>216</sup> Direct policy tools include direct interest rate, credit control and lending control.<sup>217</sup> The CB does not currently set interest rates levied by domestic banks except for the minimum interest rate payable on savings deposits.<sup>218</sup> The bank has opted not to use the interest rate control as a tool of monetary policy but to let market forces determine interest rate.<sup>219</sup> Also the CB has not exercised credit control in its implementation of monetary policy.<sup>220</sup> However, it may provide credit, back by collateral to domestic banks to meet their short-term liquidity needs as lender of last resort.<sup>221</sup> The interest is set at a punitive rate to encourage banks to efficiently manage their liquidity.<sup>222</sup> The CB seems to

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<sup>210</sup> 'Foreign Exchange Controls: What it Means to You!' (n 186)

<sup>211</sup> *ibid*

<sup>212</sup> *ibid*

<sup>213</sup> *ibid*

<sup>214</sup> 'Financial System: Monetary Policy' (n 206)

<sup>215</sup> *ibid*

<sup>216</sup> 'Financial System: Monetary Policy-Monetary Policy Tools' < [centralbank.org.bz](http://centralbank.org.bz) >

<sup>217</sup> *ibid*

<sup>218</sup> *ibid*

<sup>219</sup> *ibid*

<sup>220</sup> *ibid*

<sup>221</sup> *ibid*

<sup>222</sup> *ibid*

make use of the indirect policy tools more often in order to alter liquidity condition.<sup>223</sup> While the use of the reserve requirement has been the traditional monetary tool of choice, more recently the CB has shifted towards the use of open market operations to manage liquidity in the financial system and to signal its policy stance.<sup>224</sup>

In 2004, the country was recommended to tighten its monetary policy and contain credit growth in order to reduce pressures on the exchange rate especially in the short run.<sup>225</sup> It is also vital in the long run along with a strong fiscal adjustment to protect the balance of payments and support the exchange rate peg, a critical anchor for confidence stability.<sup>226</sup>

### 3.2.2 Barbados

The CB of Barbados is also been tasked to formulate monetary policy in association with the government to assist the country's economic development programme.<sup>227</sup> Similar to Belize, Barbados also operate under a fixed exchange rate regime which is pegged to the US since the 1970s at a rate of BBD\$2 to US\$1,<sup>228</sup> hence the focus has been to maintain the exchange rate with the US dollar and to influence the interest rate and overall excess liquidity of the banking system.<sup>229</sup> Barbados heavily depends on direct interest rates to conduct their monetary policy with supporting instruments of moral suasion, commercial banks cash reserves and security requirement, credit controls and advances and rediscounts.<sup>230</sup> During the period of 1975 to 1993, the bank implemented credit controls, policy on credit ceilings on distributional and personal sectors, concessions and exceptions in order to manage credit demand in the

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<sup>223</sup> 'Financial System: Monetary Policy-Monetary Policy Tools' (n 216)

<sup>224</sup> *ibid*

<sup>225</sup> 'Belize: 2003 Article IV Consultation – Staff Report, Staff Statement, Public Information Notice on the Executive Board Discussion, and Statement by the Executive Director for Belize' (2004) IMF Country Report No. 04/102, 3 < <https://books.google.co.uk/books?id=4UAyUrYYqEC> > accessed 14 July 2017.

<sup>226</sup> *ibid*

<sup>227</sup> 'About Us: What We Do' < [centralbank.org.bb](http://centralbank.org.bb) >

<sup>228</sup> Warren Cassell, 'Caribbean Currencies: An Overview' (2015) Investopedia < [www.investopedia.com/articles/investing/071315/caribbean-currencies-overview.asp](http://www.investopedia.com/articles/investing/071315/caribbean-currencies-overview.asp) > accessed 22 July 2017.

<sup>229</sup> Tarron Khemraj, 'Is There a Role For Independent Monetary Policy in Barbados?' (2015) Central Bank of Barbados Working Paper No. WP/15/8, 9 < <http://www.centralbank.org.bb/news/article/8782/is-there-a-role-for-independent-monetary-policy-in-barbados> > accessed 1 August 2017.

<sup>230</sup> *ibid*

economy but no longer utilize such policy.<sup>231</sup> Why the change in policy instrument? As such it became a dormant policy instrument and because the credit flows was left to equilibrate on its own.<sup>232</sup> Today the country is more actively utilizing other policy options like interest rates, cash reserves and security requirement.<sup>233</sup> In 2004, there was a modification of the monetary policy by reducing the minimum rate of interest payable on deposits from 2.5% to 2.25% annually.<sup>234</sup> This reduction in the minimum deposit rate was accompanied by an equal and simultaneous cut in interest rates on loans from commercial banks.<sup>235</sup> But what was the purpose for this adjustment? The adjustment in the minimum deposit rate was intended to signal to commercial banks a need for a cut in lending rates with a view to decreasing the operational costs of local businesses.<sup>236</sup> There was also a major shift in 2013 when the bank adopted the three (3) month Treasury bill rate as a benchmark indicator.<sup>237</sup> This was mainly to smooth out the process of adjusting the domestic interest rates in response to changes in the foreign rates in order to minimize the potential losses in the international reserve.<sup>238</sup> Even though the banks were initially required to hold 1% of Treasury bills and 2% cash reserve ratio of their total deposits, there has been a need to continuously make adjustment to achieve policy outcomes.<sup>239</sup> Since 2013, the CB intervenes in the Treasury bill market to influence the average rate at which the bills are sold.

### 3.2.3 Jamaica

In Jamaica, the elected government sets the national macroeconomic goals and objectives.<sup>240</sup> This is however an executive function with the formulation of sectoral plans delegated to the Planning Institute and allied agencies.<sup>241</sup> In the process of setting broad sectoral targets, the role of the BoJ is that of maintaining relative price

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<sup>231</sup> Khemraj (n 229) 9

<sup>232</sup> *ibid*

<sup>233</sup> *ibid*

<sup>234</sup> ‘Media: News-The Central Bank of Barbados Announces Change in its Monetary Policy’ < [centralbank.org.bb](http://centralbank.org.bb) >

<sup>235</sup> *ibid*

<sup>236</sup> *ibid*

<sup>237</sup> Khemraj (n 229) 10

<sup>238</sup> *ibid*

<sup>239</sup> *ibid* 9-10

<sup>240</sup> Robinson (n 203) 16

<sup>241</sup> *ibid*

stability and exchange rate competitiveness.<sup>242</sup> In contrast to the exchange rate regime in Belize and Barbados, Jamaica operate under a ‘managed’ float system in which market forces are allowed to affect the value of their currency within certain upper and lower limits.<sup>243</sup> But how does the bank keep the value of their currency when the market plays a vital role? This is where the CB ‘attempts’ to keep the value of the currency from fluctuating too widely by buying and selling foreign exchange in sufficient quantities to influence the market.<sup>244</sup> With this said, it is of vital importance for a CB operating under such a regime to maintain large stocks of foreign currency reserve in order to facilitate those transactions. Has Jamaica been successful under this regime? Evidence has shown that the value of the domestic currency in Jamaica has depreciated multiple times over the years with a value of JM\$106 to US\$1 and as much as JM\$206 to US\$1 respectively as at December 2013.<sup>245</sup> This clearly illustrates that such a regime is more difficult to administer and the interventions of the CB have only a limited and temporary effect in the world foreign currency market.<sup>246</sup>

The target for inflation is set by the BoJ but approved by the Minister of Finance (MoF).<sup>247</sup> The target is then incorporated in a financial programme that outlines and defines the main economic variables that are considered with the inflation target.<sup>248</sup> The CB currently follows a mixed monetary policy strategy and is reflected by its use of both interest rate and money supply aggregate as policy instruments.<sup>249</sup> However the dominant influence appears to be based on monetarist theory because the focus of the most of the policy instruments is on the absorption of liquidity and control of the monetary aggregate<sup>250</sup> as in the case of Belize and Barbados.<sup>251</sup> For many years, monetary control relied on the use of high reserve requirement, special deposits and sectoral credit ceilings among others that were effective when prices, incomes,

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<sup>242</sup> Robinson (n 203) 19

<sup>243</sup> ‘Foreign Exchange Controls: What it Means to You!’ (n 186)

<sup>244</sup> *ibid*

<sup>245</sup> *ibid*

<sup>246</sup> *ibid*

<sup>247</sup> Bosede Douglas, ‘Inflation Targeting Framework for Jamaica: An Empirical Exploration’ (2004) Bank of Jamaica, 5 <  
<http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.562.1395&rep=rep1&type=pdf>>  
 accessed 1 August 2017.

<sup>248</sup> *ibid*

<sup>249</sup> *ibid*

<sup>250</sup> Robinson (n 203) 22

<sup>251</sup> *ibid*



interest rates and the exchange rate were centrally set and controlled.<sup>252</sup> However in the 1980s a financial reform programme shifted the burden of monetary control to market instruments with the BoJ creating and marketing its own CODs.<sup>253</sup> But the decentralization of the foreign exchange market and the abandonment of the exchange control, the BoJ started its reliance on direct instruments used before while still continued to issue its own liabilities.<sup>254</sup> High levels of excess reserves have been a persistent feature of Jamaica's commercial banking system within the past two decades.<sup>255</sup> Over the years, the reserve requirement has been amended several times however at the end of 2010, it was a total of 12%.<sup>256</sup> As compared to Barbados (2% of cash reserve on deposits) Jamaica seem to be extremely high. Is this feasible to achieve the objectives of monetary policy? Even though having a high level of excess reserve can surely provide a positive impact in terms of the institutions' ability to respond to liquidity shocks,<sup>257</sup> questions have been raised as to whether or not this present challenges to the CB in its pursuit of price stability.<sup>258</sup> Current open market operations are focused on repos and reserve repos that allow BoJ to fine-tune the short-term reserve or liquidity position of commercial bank with the nominal interest rate as the intermediate target.

Overall, policy implementation and analysis must be carefully considered in the effective management of an economy. According to the CWN index, the greater the extent to which policy decisions are made independently of government involvement, the greater the independence.<sup>259</sup> Based on the information presented, it illustrates a high degree of government involvement among the three (3) developing jurisdictions in the formulation and implementation of monetary policy as compared to developed

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<sup>252</sup> Robinson (n 203) 25

<sup>253</sup> *ibid*

<sup>254</sup> *ibid*

<sup>255</sup> Karen Reid, 'Excess Reserve in Jamaican Commercial Banks: The Implications for Monetary Policy' (2011) Bank of Jamaica, Abstract <

[http://boj.org.jm/uploads/pdf/papers\\_pamphlets/papers\\_pamphlets\\_Excess\\_reserves\\_in\\_Jamai%20can\\_Commercial\\_Banks\\_The\\_implications\\_for\\_Monetary\\_Policy.pdf](http://boj.org.jm/uploads/pdf/papers_pamphlets/papers_pamphlets_Excess_reserves_in_Jamai%20can_Commercial_Banks_The_implications_for_Monetary_Policy.pdf)> accessed 1 August 2017.

<sup>256</sup> *ibid* 2

<sup>257</sup> *ibid* abstract

<sup>258</sup> *ibid* abstract

<sup>259</sup> Walsh (n 8) 4

countries like the UK<sup>260</sup> and Germany<sup>261</sup> where CBs have been given the power to control monetary policy and decisions are made independently from government.

### **3.3 Governance Structure - Appointment, Term of Office and Dismissal of Governors**

A CB legislative framework should clearly define the governance structure that will limit the risk of undue interference and government pressure in the exercise of its powers.<sup>262</sup> There are different types of governing bodies depending on the degree of CBI.<sup>263</sup> The composition of the governance structure should reflect its functions while at the same time try to depoliticize the decision making process and take into account country specific conditions, including corporate law.<sup>264</sup>

The CWN index gives greater independence to a CB when the governor are appointed by the CB's board of directors rather than by the prime minister (PM) or MoF, has a long term of office and is not subject to dismissal.<sup>265</sup> These aspects help insulate the CB from political pressures.<sup>266</sup> Based on this, a review of the governance structure was done on the basis of these criteria.

#### **3.3.1 Appointment**

The CB of Belize Act states that a governor shall be appointed by the governor general but on the advice of the PM.<sup>267</sup> The CB of Barbados Act states that a governor shall be a person with recognized experience in financial matters and shall be appointed by the MoF.<sup>268</sup> Based on the BoJ Act, the governor shall be appointed by

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<sup>260</sup> 'Brown Sets Bank of England Free' (1997) BBC News <  
[http://news.bbc.co.uk/onthisday/hi/dates/stories/may/6/newsid\\_3806000/3806313.stm](http://news.bbc.co.uk/onthisday/hi/dates/stories/may/6/newsid_3806000/3806313.stm) >  
accessed 12 August 2017.

<sup>261</sup> Andreas Beyer et al., 'Opting Out of the Great Inflation: German Monetary Policy After the Break Down of Bretton Woods' (2009) European Central Bank Working Paper Series No. 1020 <  
<https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1020.pdf?5c339db37b9cad9d0185f0152c15aa96> > accessed 20 August 2017.

<sup>262</sup> Lybek (n 12) 8

<sup>263</sup> *ibid*

<sup>264</sup> *ibid* 9

<sup>265</sup> Walsh (n 8) 4

<sup>266</sup> *ibid*

<sup>267</sup> Central Bank of Belize Act 1982, s (IV) (II) (2)

<sup>268</sup> Central Bank of Barbados Act 1972, s (IV) (11) (1)

the MoF.<sup>269</sup>

### 3.3.2 Term of Office

In Belize the governor is appointed for a period not exceeding five (5) years but are eligible for re-appointment.<sup>270</sup> In Barbados the governor is also appointed for a period not exceeding five (5) years and are also eligible for re-appointment.<sup>271</sup> In Jamaica, the situation is similar to that of Belize and Barbados.<sup>272</sup>

### 3.3.3 Dismissal

In Belize the governor general may terminate the appointment of the governor based on several cases presented in Section 15 (2) of the Act.<sup>273</sup> The CB of Barbados Act does not explicitly state who may terminate the appointment of the governor but they are still subject to dismissal based on Section 13 of the Act presenting cases where a person may no longer hold office.<sup>274</sup> Section 5 of the Schedule listed in the BoJ Act clearly shows that the governor is subject to dismissal by the MoF in cases closely related to both Belize and Barbados.<sup>275</sup>

Theoretically it shows that there is severe government intervention on these criteria. In Belize the governor is appointment by the governor general but again subject to the discretion of the PM. Meanwhile all three jurisdictions permit a medium term of office (5 years) with possibility of re-appointment but are all subject to dismissal.

## 3.4 Limitations on the Government's Ability to Borrow

According to the CWN index, independence is greater if there are limitations on the government's ability to borrow from the CB.<sup>276</sup> This may also have an influence on a country's fiscal deficit since by limiting credit to government, CB deprives the government from inflation tax and so constitutes a strong signal for fiscal

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<sup>269</sup> Bank of Jamaica Act 1960, s (II) (6) (8)

<sup>270</sup> Central Bank of Belize Act 1982, s (IV) (II) (2)

<sup>271</sup> Central Bank of Barbados Act 1972, s (IV) (11) (1)

<sup>272</sup> Bank of Jamaica Act 1960, s (II) (6) (8)

<sup>273</sup> Central Bank of Belize Act 1982, s (IV) (15) (2)

<sup>274</sup> Central Bank of Barbados Act 1972, s (IV) (13) (1)

<sup>275</sup> Bank of Jamaica Act 1960, s (II) (6) (5)

<sup>276</sup> Walsh (n 8) 5

discipline.<sup>277</sup>

As mentioned, over the years CB's legislation have been reformed with the objective of defeating inflation; hence one of the pillars of this reform was restricting CB financing to the government.<sup>278</sup> This was considered critical for building CB's credibility, a key ingredient for achieving monetary policy effectiveness.<sup>279</sup> Recently CB lending to the government have increased especially due to the 'great recession' causing governments to turn to CB for money as liabilities increased, tax revenues declined and financing for fiscal imbalance from domestic and international capital markets was expensive or unavailable.<sup>280</sup>

Based on a review of CB laws from countries in selected regions, it shows that developed countries in Europe exhibits the most restrictive legal provisions, with these restrictions being driven by the limitations imposed by the treaty establishing the EC.<sup>281</sup> However, at the other extreme countries in Africa, Asia and the Pacific tend to have more lenient legislation in relation to CB financing to the government, with almost no country imposing full prohibitions and instead empowering the CB to grant advances and in some cases loans.<sup>282</sup> Latin American countries like Brazil, Chile and Guatemala also have more stringent legal restrictions with some countries banning CB financing to the government at the constitutional level.<sup>283</sup> But one might ask, why all the way at the constitutional level? Well probably because of the past episodes of hyperinflation linked to persistent financing of fiscal deficits by CB.<sup>284</sup> In 2010, Axel Weber then German Bundesbank president warned that "excessive deficits can cause tensions with monetary policy and may require higher interest rates if not corrected" whereas Mervyn King, at the time BoE governor, noted that "uncertainty about how and when fiscal policy will respond has a direct bearing on monetary

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<sup>277</sup> Lucotte (n 3) 3

<sup>278</sup> Luis Jacome, 'Central Bank Credit to the Government: What Can We Learn From International Practices?' (2012) IMF Working Paper WP/12/16, 3 <  
<https://www.imf.org/external/pubs/ft/wp/2012/wp1216.pdf> > accessed 8 August 2017.

<sup>279</sup> *ibid*

<sup>280</sup> *ibid*

<sup>281</sup> *ibid* 11

<sup>282</sup> *ibid*

<sup>283</sup> *ibid*

<sup>284</sup> *ibid*

policy”.<sup>285</sup>

As mentioned, the legal provisions on CB financing to the government seem to be inversely correlated to the country’s level of development. Research shows that while in two-thirds of the developed countries, CBs cannot finance the fiscal deficit this proportion falls to almost one-half in emerging market economies, and to only one-fifth in developing countries.<sup>286</sup> So the question is, if lending is allowed to government, under what conditions should this be done? While conditions might vary from one country to another, there are some common trends among countries.<sup>287</sup> These trends focuses on: a) possible beneficiaries of CB financing; b) who decides the interest rates charged on the loans; c) what limits are imposed on the amount of financing; and d) the maximum maturity date of CB loans to government.<sup>288</sup> A review of the CB Acts in the three (3) Caribbean jurisdictions was done focusing on the trends previously mentioned to illustrate the legal restrictions on CB lending to government in this region.

#### **3.4.1 Possible Beneficiaries**

In the three (3) countries, legal provision for CB financing seem not only to benefit the government but have expanded these facilities to both public and private corporations. Restricting CB financing to benefit exclusively the government is essential since it not only increases the chances of limiting broad monetization but also facilitates systemic liquidity management by the CB.<sup>289</sup>

#### **3.4.2 Interest Rate Decisions**

Less uniform provisions are found when it comes to the decision-making about the interest rate on the financing. However in Belize interest rate are based on the CB terms and conditions<sup>290</sup> whereas in Barbados, there seem to be room for negotiation since it is based on the terms and conditions agreed on.<sup>291</sup> Meanwhile there is no

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<sup>285</sup> Bodea and Higashijima (n 158) 2

<sup>286</sup> Jacome (n 278) 11

<sup>287</sup> *ibid* 13

<sup>288</sup> *ibid*

<sup>289</sup> *ibid*

<sup>290</sup> Central Bank of Belize Act 1982, s (VIII) (41) (3a)

<sup>291</sup> Central Bank of Barbados Act 1972, s (IX) (45a)

explicit provision highlighting the terms and conditions pertaining to the interest rates in Jamaica. Overall there is no specific legislated interest rate.

### **3.4.3 Amount of Financing**

Legal provisions governing the amount of CB financing to government vary among the countries. There's a limit to the amount of credit granted to government based on relative measures common in the three countries as it relates to government revenues. In Belize advances cannot exceed 8.5% of the government revenues from the previous financial year<sup>292</sup> whereas no reference was made as to the limit of such advances in Barbados; hence presuming a negotiation may be possible. In Jamaica, advances may not exceed 30% of the estimated revenue for that financial year and there was also a provision relative to government's estimated expenditure.<sup>293</sup> This indicated that the BoJ shall not purchase or acquire, on a primary issue, securities issued or guaranteed by the government of a nominal value exceeding 40% of government's estimated expenditure in that financial year or the percentage the House of Representatives may from time to time approve by resolution.<sup>294</sup> As compared to developed countries like the UK, financing to the government is prohibited<sup>295</sup> hence this can have a greater impact of fiscal deficit in developing countries as opposed to developed countries.

### **3.4.4 Maturity of Loan**

The maturity of CB loans and in particular advances is concentrated on periods up to 180 days or one (1) year. But Belize's CB Act provide additional provision indicating that securities issued or guaranteed by the government have a maturity period not exceeding ten (10) years.<sup>296</sup>

Overall there can be room for improvement especially regarding the interest rates on loans. There is no clear legislative rate in place so this may leave room for government intervention. Involving the government in setting an interest rate can be a subject of concern, in particular countries with weak institutions as these

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<sup>292</sup> Central Bank of Belize Act 1982, s (VII) (34)

<sup>293</sup> Bank of Jamaica Act 1960, s (VI) (36a)

<sup>294</sup> Bank of Jamaica Act 1960, s (VI) (37)

<sup>295</sup> 'Does the Treasury Borrow Money From the Bank of England?' (2011) My Society <[https://www.whatdotheyknow.com/request/does\\_the\\_treasury\\_borrow\\_money\\_f](https://www.whatdotheyknow.com/request/does_the_treasury_borrow_money_f)> accessed 12 August 2017.

<sup>296</sup> Central Bank of Belize Act 1982, s (VII) (35b)

negotiations could probably tilt the balance in favor of government.<sup>297</sup> Allowing government an active role in the negotiation process hinders the CB independence and credibility and might encourage government to use CB financing rather than to raise money from the market, internally or abroad.<sup>298</sup> Could this be the reason for not having a legislated rate in place? The answer is questionable.

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<sup>297</sup> Jacome (n 278) 14  
<sup>298</sup> *ibid*

## CHAPTER 4: THEORETICAL AND EMPIRICAL EVIDENCE

### 4.1 Theoretical Evidence

CBI has become one of the central concepts in monetary theory and policy.<sup>299</sup> It is strongly believed that a high level of CBI with an explicit mandate to restrain inflation is essential to assure price stability.<sup>300</sup> But isn't there other alternative for ensuring price stability? Of course there are however CBI is often the most recommended.<sup>301</sup> The theory underlying this view is linked to the time inconsistency model of Kydland and Prescott (1997) and Barro and Gordon (1983) based on the argument that government suffers from inflationary bias and as a result inflation is suboptimal.<sup>302</sup> Rogoff (1985) proposed delegating monetary policy to an independent and 'conservative' central banker to reduce the inflationary bias.<sup>303</sup> This type of 'conservatism' accorded with the notion is that independent CBs are more concerned than the elected government with maintaining low and stable inflation that will lead to price stability;<sup>304</sup> thus economic growth will be stimulated.<sup>305</sup> The assumption is that conservative behavior is linked with rational decision-making and the ability to commit to long-run objectives<sup>306</sup> as compared to political behavior that maybe motivated by short-run electoral considerations or may highly value short-run economic expansions while discounting the longer-run inflationary consequences of expansionary policies.<sup>307</sup> So if the ability of the elected officials to distort monetary policy results in excessive inflation, it would be reasonable to assume that there should be lower rates of inflation in countries where CBs are independent of such pressure.<sup>308</sup>

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<sup>299</sup> Theodore Panagiotidis and Afroditi Triampella, 'Central Bank Independence and Inflation: The Case of Greece' (2005) Loughborough University, Discussion Paper Series No. 2005/7, 1 < <https://dspace.lboro.ac.uk/2134/588> > accessed 7 August 2017.

<sup>300</sup> *ibid*

<sup>301</sup> *ibid*

<sup>302</sup> *ibid*

<sup>303</sup> *ibid*

<sup>304</sup> Walsh (n 8) 7-8

<sup>305</sup> Griffin (n 91)

<sup>306</sup> Walsh (n 8) 10

<sup>307</sup> *ibid* 2

<sup>308</sup> *ibid*



Rogoff's formulation reflects both a form of goal independence – the CB's goals differ from those of the government – and instrument independence – the CB is assumed free to set policy to achieve its own objectives.<sup>309</sup> Hence, CB has a greater level of independence when the goal is focused on price stability and when it has the power to control monetary policy to achieve this objective. Building on the assumption that because of this, CB in developed countries has a greater level of independence due to its narrow mandate, thus generate a lower level of inflation as compared to developing countries where inflation maybe higher as a result of a wider mandate of objectives; overall has a lower level of CBI.

Reference is made to a CB in a developed country such as the BoE, with its primary objective, to deliver price stability and subject to that, support the government's economic objectives including those for growth and employment.<sup>310</sup> This objective clearly illustrates the difference between the BoE and the government's mandate. However, as the case in developing country, the focus is on the CB of Belize's primary objective which is simply not based on price stability alone, but also has the task to maintain the stability of the exchange rate, promote credit and exchange conditions conducive to the growth of the economy of Belize and within the context of the economic policy of Belize.<sup>311</sup> The CB is also guided in all its actions in carrying out these objectives.<sup>312</sup> Would it be possible to say that the CB of Belize lacks both goal and instrument independence? The objective gives an indication that the CB is not free from government influence to control monetary policy and to an extent the focus is based on the economic objectives of the government. A very good example of this was when monetary policy underwent two swings between the periods of 1996 to 2007.<sup>313</sup> Initially, the stance was restrictive under the United Democratic Party (UDP) government with the aim of moderating credit growth and reducing pressures on international reserves.<sup>314</sup> Then came a period of loosening at

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<sup>309</sup> Walsh (n 8) 2

<sup>310</sup> 'Bank of England: Monetary Policy' (n 174)

<sup>311</sup> Central Bank of Belize Act 1982, s (II) (6)

<sup>312</sup> *ibid*

<sup>313</sup> Gloria Garcia et al., 'The Evolution of the Financial Sector in Belize 1996-2007' (2009) Central Bank of Belize, Research Department 10 < <https://www.centralbank.org.bz/docs/default-source/4.5-conferences-and-working-papers/the-evolution-of-the-financial-sector-in-belize-1996-2007.pdf?sfvrsn=8> > accessed 14 August 2017.

<sup>314</sup> *ibid*

the behest of the incoming People's United Party (PUP) government to free up monies to help fund a fast paced economic growth program.<sup>315</sup> A gradual process of tightening then had to be undertaken to stem the 'hemorrhaging' of foreign reserves and protect the fixed exchange rate.<sup>316</sup> As a result of the political motives, it is obvious that the CB of Belize was placed in a more difficult place to achieve its core objectives. However in the UK, Chancellor Gordon Brown granted the BoE independence in 1997 to control monetary policy.<sup>317</sup> In his statement he stated, "I want to set in place a long-term framework for economic prosperity. I want to break from the boom bust economics of previous years."<sup>318</sup> But would it still be possible to have government intervention? This might have been the case witnessed back in 2003 with the government's most notorious decision to shift the target rate from the Retail Price Index (RPI) to the Consumer Price Index (CPI) with the aim of bringing the UK more in line with the Euro.<sup>319</sup> However speaking at a Bank Future Forum in October 2016, current Governor Mark Carney expressed that it became difficult for the BoE when politicians commented on its policies rather than its objectives.<sup>320</sup> He made it clear that while politicians have done a 'good job' of setting up the system in which the bank operates, "we are not going to take instruction on our policies from the political side."<sup>321</sup> Importantly since 1997 UK inflation has remained close to the government's target of 2%; this is much lower than the UK inflation in the 1980s that reached 10%.<sup>322</sup>

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<sup>315</sup> Garcia et al., (n 313) 10

<sup>316</sup> *ibid*

<sup>317</sup> 'Brown Sets Bank of England Free' (n 260)

<sup>318</sup> *ibid*

<sup>319</sup> John Redwood, 'How Independent is the Bank of England? How Good is our Control of Inflation and Interest Rates?' (2007) Permalink <

<http://johnredwoodsdiary.com/2007/01/23/how-independent-is-the-bank-of-england-how-good-is-our-control-of-inflation-and-interest-rates/> > accessed 26 August 2017.

<sup>320</sup> 'Mark Carney: Bank of England Will Not Take Policy Instructions From Politicians' (2016) The Guardian < <https://www.theguardian.com/business/2016/oct/14/prices-to-continue-rising-warns-bank-of-england-governor> > accessed 12 August 2017.

<sup>321</sup> *ibid*

<sup>322</sup> Tejvan Pettinger, 'Bank of England Inflation Target' (2008) Economics Help < <http://www.economicshelp.org/blog/382/inflation/bank-of-england-inflation-target/> > accessed 19 August 2017.

## 4.2 Empirical Evidence (Legal Indicators and TOR of Governors)

### 4.2.1 Legal Indicators

There has been empirical evidence suggesting that countries with greater CBI have lower rates of inflation.<sup>323</sup> This evidence generally, consists of cross-country regressions using proxies of CBI and the (TOR) of CB governors.<sup>324</sup> In particular, studies found that developed countries demonstrate a negative relationship between legal independence and inflation.<sup>325</sup> The estimated effect of independence on inflation was statistically and economically significant.<sup>326</sup> Based on data from the high inflation years of the 1970s, for example, moving from the status of the BoE prior to the 1997 reforms that increased its independence to the level of independence then enjoyed by the German Bundesbank would be associated with a drop in annual average inflation of four percentage points.<sup>327</sup> While standard indexes of CBI were negatively associated with inflation among developed economies, this was not the case among developing economies.<sup>328</sup>

CWN index (1992) and Cukierman (1994) summarize the empirical regularities in the correlation between CBI on the one hand and inflation and economic growth on the other as follows:

- 1.) Among developed countries, the legal CBI index introduced in CWN is negatively correlated with inflation, but the (TOR) of CB governors has no correlation with inflation;
- 2.) Among developing countries, the legal CBI index of CWN is not correlated with inflation, but the TOR is significantly related to inflation.<sup>329</sup>

This shows that the legal CWN index is good indicator for measuring CBI for developed countries whereas the TOR is better for measuring CBI in developing

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<sup>323</sup> Panagiotidis and Triampella (n 299) 1

<sup>324</sup> *ibid*

<sup>325</sup> Walsh (n 8) 6

<sup>326</sup> *ibid*

<sup>327</sup> *ibid*

<sup>328</sup> Laurenz Jedenastik, 'Party Politics and the Survival of Central Bank Governors' (2013) University of Vienna 2 <

[http://homepage.univie.ac.at/laurenz.ennser/WEB\\_Central\\_Bank\\_Governors.pdf](http://homepage.univie.ac.at/laurenz.ennser/WEB_Central_Bank_Governors.pdf) > accessed 10 August 2017.

<sup>329</sup> *ibid*

countries. An analysis was done for the BoE (developed country) using the legal indicators as compared to the CB of Belize (developing country) for ease of reference and the TOR of governors for the CB of Belize as compared to the BoE to measure its 'true' level of independence.

Table 1 below illustrates the BoE's independence based on the four (4) legal indicators of the CWN index. It depicts the BoE's narrow mandate of price stability as compared to the CB of Belize wider mandate that is subject to government's monitoring and intervention. In addition, the BoE has the ultimate power to control monetary policy whereas the CB of Belize is responsible for formulating and implementing monetary policy within the context of the economic activity of the government. The appointment of the governor of the BoE has to be approved by Her Majesty the Queen whereas in Belize, the appointment has to be approved by the PM. The term of office of the governor of the BoE is for one fixed term of eight (8) years as compared to the CB of Belize five (5) year term and is also subject to re-appointment. However the BoE governor is subject to dismissal<sup>330</sup> just like governors in other developed countries like the US<sup>331</sup> as well as developing countries specific to this research but on a much narrower dimension. As mentioned, a country's level of development might also play a major role regarding financing to the government.<sup>332</sup> A developed country such as the UK is evident in this since the BoE does not support financing to the government with no provisions in its legal charter relating to this. In fact the government borrowing from the CB tend to be illegal under the Maastricht Treaty.<sup>333</sup> On the other hand, in more than half of developing countries, it seems to be a common practice for CB to provide advances and sometimes loans to the government.<sup>334</sup> During the period 2003 to 2004, GoB was heavily relying on CB's financing for fiscal deficits averaging 7.6% of Gross Domestic Product (GDP).<sup>335</sup> What did this lead to? Under the unrelenting pressure of servicing the external debt, the CB ended 2004 with reduced reserves and an external asset ratio of 32%, which was below the legal threshold of 40%.<sup>336</sup> This led to the third major debt-refinancing

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<sup>330</sup> Bank of England Act 1998, s (7)

<sup>331</sup> Federal Reserve Act, s (11) (f)

<sup>332</sup> Jacome (n 278) 11

<sup>333</sup> 'Does the Treasury Borrow Money From the Bank of England?' (n 295)

<sup>334</sup> Jacome (n 278) 11

<sup>335</sup> Garcia et al., (n 313) 12

<sup>336</sup> *ibid* 13

episode in the first quarter of 2005.<sup>337</sup>

Table 1: Showing the BoE greater level of independence as compared to the CB of Belize based on the 4 legal indices of the CWN index

<b>CWN Legal Indicators</b>	<b>BoE</b>	<b>CB of Belize</b>
Primary Objective	Price Stability <sup>338</sup> - Subject to economic growth and employment	Monetary and Exchange Rate Stability, promote credit and exchange conditions <sup>339</sup>
Extent of Monetary Policy Setting and Implementation	Complete control over monetary policy <sup>340</sup>	Formulating and implementing monetary policy but within the context of the economic activity of the government <sup>341</sup>
Governance Structure: Appointment of Governor Term of Office Subject to Dismissal	Chancellor of the Exchequer but with Her Majesty the Queen approval <sup>342</sup> 1 Fix Term of 8 years <sup>343</sup> Subject to dismissal on 3 grounds <sup>344</sup>	- Governor General on the advice of the Prime Minister – Approval <sup>345</sup> - 5 years but subject to re-appointment <sup>346</sup> - Subject to dismissal on 5 grounds <sup>347</sup>
Credit/Financing to Government	Does not support	Supports advances and loans <sup>348</sup>

<sup>337</sup> Garcia et al., (n 313) 13

<sup>338</sup> ‘Bank of England: Monetary Policy’ (n 174)

<sup>339</sup> Central Bank of Belize Act 1982, s (II) (6)

<sup>340</sup> ‘Bank of England: Monetary Policy’ (n 174)

<sup>341</sup> ‘Central Bank of Belize: Monetary Policy’ < [centralbank.org.bz](http://centralbank.org.bz) >

<sup>342</sup> ‘The Governor of the Bank of England’ (2012) Gov.Uk <

<https://www.gov.uk/government/news/governor-of-the-bank-of-england> > accessed 13 August 2017.

<sup>343</sup> Bank of England Act 1998, s (46) (1)

<sup>344</sup> Bank of England Act 1998, Schedules s (8)

<sup>345</sup> Central Bank of Belize Act 1982 (n 267)

<sup>346</sup> *ibid*

<sup>347</sup> Central Bank of Belize Act 1982 (n 273)

<sup>348</sup> Central Bank of Belize Act 1982, (n 292)

In countries where the rule of law is less strongly embedded in the political culture, there can be wide gaps between the formal, legal institutional arrangements and their practical impact.<sup>349</sup> This is particularly the case for many developing countries<sup>350</sup> like Belize. Governments do not respect the rule of law as much; hence legal independence does not measure a CBs ‘true’ independence.<sup>351</sup> Respecting the CB’s statue is vital, but what happens if government can use its power to easily change the constitutional law to suit their needs? The more ‘rigid’ a constitution is said to be, the harder it will be to amend the constitutional text.<sup>352</sup> Constitutional laws need to have more stringent amendment procedures to restrict government to use its authority<sup>353</sup> or that the decisions cannot be reversed only in extreme cases.<sup>354</sup> Without that immunity, it would be a mockery of CBI, for its decisions would stand only as long as they did not displease someone more powerful.<sup>355</sup> With this in mind, what are the possibilities of making amendments in a developed country verses a developing country? In the US, the formal amendment requirements of Article V of the US constitution are said to make the US Constitution difficult to amend.<sup>356</sup> In the US system of government, neither the president nor the Supreme Court can reverse a decision of the Federal Open Market Committee.<sup>357</sup> Congress can, in principle, reverse such a decision, but only if it passes a law that the president will sign (or by overriding a presidential veto).<sup>358</sup> This makes the FED’s decisions, for all practical purposes, immune from reversal; and, indeed, they never have been reversed.<sup>359</sup> The Constitution of Belize however has been amended several times since it was enacted on Independence Day

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<sup>349</sup> Walsh (n 8) 5

<sup>350</sup> *ibid*

<sup>351</sup> Cristina Bodea and Raymond Hicks, ‘Price Stability and Central Bank Independence: Discipline, Credibility and Democratic Institutions’ (2014) 69 *International Organization* 1, 5 < <https://doi.org/10.1017/s0020818314000277> > accessed 24 July 2017.

<sup>352</sup> Ian Cram, ‘Some Thoughts on Constitutional Amendment’ (2013) *UK Constitutional Law Association* < <http://ukconstitutionallaw.org> > accessed 14 August 2017.

<sup>353</sup> Allan Drazen, ‘Central Bank Independence, Democracy and Dollarization’ (2002) *V Journal of Applied Economics* 1, 10 < <http://www.cema.edu.ar/publicaciones/download/volume5/drazen.pdf> > accessed 14 August 2017.

<sup>354</sup> *Blinder* (n 7) 9

<sup>355</sup> *ibid*

<sup>356</sup> Cram (352)

<sup>357</sup> *Blinder* (n 7) 9

<sup>358</sup> *ibid*

<sup>359</sup> *ibid*

1981.<sup>360</sup> Amendments can be done more easily based on the recently amended Section 69 Part VI passed through the Ninth Amendment (Powers and Procedures) that caused a lot of controversy.<sup>361</sup> The number of amendments reached a record high during 2008 to 2012 under the first term of the UDP.<sup>362</sup> But how was this even possible? Well the government at that time enjoyed a super majority in parliament allowing it to enact any amendment it wanted without the concurrence of the opposition PUP.<sup>363</sup> This begs the question of whether the Belize National Assembly is supreme instead of the Constitution? So would it be reasonable to conclude that CBI is greater in developed countries than developing countries simply as a result of these legal indices? No since legal independence is a reasonable proxy for actual independence provided there is sufficient respect for the rule of law in countries under consideration,<sup>364</sup> like the UK as opposed to Belize. With this in mind, the focus is now on the TOR of governors.

#### 4.2.2 TOR of Governors

CWN (1992) argued by stating “The legal status of a central bank is only one of several elements that determine its actual independence. Many central banks laws are highly incomplete and leave a lot of room of interpretation. As a result, factors such as tradition or the personalities of the governor and other high officials of the bank at least partially shape the actual level of CBI. Even when the law is quite explicit, reality may be very different”.<sup>365</sup> For this reason, Cukierman and Webb (1995) have developed *de facto* indicators of CBI, more adequate than *de jure* indicators to study the CBI in developing and emerging countries.<sup>366</sup> This is based on measuring the actual TOR, or TOR relative to the formally specified term length.<sup>367</sup> High actual turnover is interpreted as indicating political interference in the conduct of monetary

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<sup>360</sup> M.A. Romero, ‘The Constitution of Belize’ (2012) Belize.com < <https://d1zo6mdbutg8ag.cloudfront.net/the-constitution-of-belize.html> > accessed 14 August 2017.

<sup>361</sup> ‘9th Amendment Bill Passed’ (2011) Channel 5 < <https://ambergriscaye.com/forum/ubbthreads.php/.../9th-amendment-bill-passed.html> > accessed 14 August 2017.

<sup>362</sup> Romero (n 360)

<sup>363</sup> *ibid*

<sup>364</sup> Cukierman (n 5) 1438

<sup>365</sup> *ibid*

<sup>366</sup> *ibid*

<sup>367</sup> Walsh (n 8) 5

policy;<sup>368</sup> hence leading to a lower level of independence.

Table 2 below shows the actual TOR of governors at the CB of Belize from its inception. Note that the legislated term of office for each governor is not exceeding 5 years but is subject to re-appointment.<sup>369</sup> A total of five (5) governors with the exception of the current governor served less than the 5 years term in office. Strikingly, the governor from its inception Sir Edney Cain served only over a year, while the second governor Mr. Robert Swift served just a little over two (2) years. The third governor Mr. Alan Slusher had a longer term in office of almost completing the five year period but again only a short span of one (1) year for the fourth (4) governor Sir Edney Cain who was also the first governor of the CB. The fifth governor Mr. Keith Arnold served the longest period of ten (10) years representing two consecutive terms in office but the governor after Mr. Jorge Meliton Auil again served for only one (1) year. The two periods after, governors served a good length of time with Mr. Sydney Campbell serving his full length of tenure (five years) and Mr. Ysaguirre serving the second longest tenure in office of eight (8) years. A total of nine (9) governors served over a period of thirty-five (35) years since the inception of the CB. If compared to the BoE, where there is only five (5) governors serving over a longer period of time (forty five years) from 1973 up to 2017;<sup>370</sup> taking into account that previously the term of office was a maximum of two (5 years) term however this was amended in 2012 to a single term of eight (8) years.<sup>371</sup> What does this imply? Wouldn't you assume that a greater level of TOR of governors from the CB of Belize (serving less than the five year term in office) especially over a shorter time span (ten years) than the BoE whose governors all served full term in office would indicate that there is government influence leading to a lower level of CBI in developing countries such as Belize as compared to a developed country like the UK? "This indicator is based on the presumption that, at least above some threshold, more rapid turnover of CB governors indicates a lower level of independence. Indeed, more rapid turnover presumably creates dependence. If the political authorities frequently take the opportunity to choose a new governor, they will at least have the opportunity to pick

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<sup>368</sup> Walsh (n 8) 5

<sup>369</sup> Central Bank of Belize Act 1982, s (IV) (II) (2)

<sup>370</sup> 'Bank of England: Governors' <

[www.bankofengland.co.uk/about/Documents/pdfs/governors.pdf](http://www.bankofengland.co.uk/about/Documents/pdfs/governors.pdf) > accessed 14 August 2017.

<sup>371</sup> Bank of England Act 1998, s (I)



those who will do their will. Frequent turnover may reflect the firing of those who choose to challenge the government.”<sup>372</sup> This is quite evident in developing countries for instance in Barbados, Governor DeLisle Worrell’s February 24, 2017 dismissal came after weeks of tension between him, his board and the government; the matter of his advice to the MoF in relation to government spending and the need to repair the CB’s reserves seemed to have played a major role in his dismissal.<sup>373</sup> The governor made a surprised announcement that the government needs to halt its practice of taking new issuances of money from the CB to pay its bills; hence some commentators strongly believe that his refusal to continue along that path was the root cause for his dismissal.<sup>374</sup>

**Table 2: Illustrating TOR of Governors at the CB of Belize**

<b>GOVERNORS</b>	<b>TERM OF OFFICE</b>	<b>TIME SERVED</b>
1.) Sir Edney Cain	Jan. 1982 to Oct. 1983	Over 1 year
2.) Mr. Robert Swift	Nov. 1983 to Jan. 1986	Over 2 years
3.) Mr. Alan Slusher	Feb. 1986 to Nov. 1990	Over 4 years
4.) Sir Edney Cain	Jan. 1991 to Dec. 1991	1 year
5.) Mr. Keith Arnold	Jan. 1992 to Mar. 2002	Over 10 years
6.) Mr. Jorge Meliton Auil	Apr. 2002 to Sept. 2003	Over 1 year
7.) Mr. Sydney Campbell	Oct. 2003 to Sept. 2008	5 years
8.) Mr. Glenford Ysaguirre	Oct. 2008 to Sept. 2016	8 years
9.) Mrs. Joy Grant	Oct. 2016 to present	11 months

A report released by the research department of the CB of Belize in 2009, indicated that although the CB’s aim is for monetary and exchange rate stability, there are substantial obstacles in the way of its success, principal among which is the

<sup>372</sup> Maxwell Fry, ‘Assessing Central Bank Independence in Developing Countries: Do Actions Speak Louder Than Words?’ (1998) 50 Oxford University Press 3, 8.

<sup>373</sup> ‘Central Banks and Their Independence’ (2017) Searchlight < <http://searchlight.vc/central-banks-and-their-independence-p64215-84.htm> > accessed 14 August 2017.

<sup>374</sup> George Alleyne, ‘Barbados Central Bank Governor Fired’ (2017) Caribbean Life < <http://www.caribbeanlifeneews.com/stories/2017/3/2017-03-03-ga-bdos-central-bank-governor-fired-cl.html> > accessed 14 August 2017.

subservience of monetary policy to the fiscal stance.<sup>375</sup> In 1998 to 2003, fiscal dominance and lack of CB independence paved the way for the implementation of policies that contributed to large balance of payments deficits, the intensification of pressures on the fixed exchange rate, a burgeoning external debt and economic instability.<sup>376</sup> With the economy having been brought to the brink of a very disorderly adjustment, the need for greater CB independence in the implementation of monetary policy was clearly underscored.<sup>377</sup> The CB therefore began to explore its options for achieving a decoupling from its role as automatic financier of fiscal deficits as well as a more market approach to dealing with liquidity build-up in the banking system.<sup>378</sup> Is there a chance for greater CBI in developing countries like Belize? The answer seems pretty vague especially since government still intervenes even when the economy seems to be in economic turmoil.

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<sup>375</sup> Garcia et al., (n 313) 10

<sup>376</sup> *ibid*

<sup>377</sup> *ibid*

<sup>378</sup> *ibid*

## CONCLUSION

The idea of CBI has been at the forefront of financial market liberalization since the late 1980s and is still quite a relevant topic of discussion.<sup>379</sup> Many countries have granted their CBs more independence in the pursuit of attaining price stability.<sup>380</sup> The general motive for granting such independence is based on the conclusion that CBI would lead to a lowering of inflation rates<sup>381</sup> since central bankers adopt a more rational decision-making and ability to commit to long-term objectives as compared to politicians who may have several short-run objectives including that of being re-elected; hence experience an inflationary bias.<sup>382</sup>

Despite the trend of granting greater independence to CBs, the paper's focus was aimed at illustrating how the level of independence vary from a developed to a developing country. Both theoretical and empirical evidence was presented based on the CWN index and the TOR of CB's governors. Evidence has shown a greater level of legal independence in developed countries where the rule of law upholds and is more difficult to make amendments to the constitution. On the other hand, CBs in developing countries depicts a lower level of independence as a result of significant government influence as shown using the legal indicators of the CWN and utilizing the TOR of CBs governors that gives a more practical measure of independence.

Given the circumstance, it is questionable whether there is hope for achieving a greater level of CBI in developing Caribbean countries for overall economic stability. The answer lies in the hands of the government since they are ultimately responsible for the current state of the economy.

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<sup>379</sup> Griffin (n 91)

<sup>380</sup> Lucotte (n 3) 2

<sup>381</sup> Griffin (n 91)

<sup>382</sup> Panagiotidis and Triampella (n 299) 1

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